

## ***Forum Series on the Role of Institutions in Promoting Economic Growth***

Comments by Emmy Simmons on Clifford Zinnes and Carlos Espina's *"The Effect of USAID Institutional Characteristics and Contracting on Projects Outcomes"*

### **Forum 5: NIE-Based Toolkits for USAID Applications**

Session 2

14 February 2003  
Washington, D.C.

The one thing that I have always liked about the NIE approach is the way it gives a common vocabulary to discuss certain phenomena, such as principal-agent, transaction costs, etc...enabling us to collectively focus on a concept and discuss it in detail.

One thing that is very clear is that many of the answers to several of your questions are actually implicit knowledge at AID already, and part of what you are doing is making them explicit by laying them out in an outsider fashion and therefore forcing all of us to say "What do I think about this?", "What do I know about this?", "What does my experience tell me about that?" One of the things that I have found in the ICID framework that was lacking was enough attention to the people.

I found the use of principal-agent, incomplete contracts, hidden information and hidden action, to be interesting for thinking about institutional incentives. In vocabulary terms, your research is useful to enable insiders and outsiders to talk about how institutional incentives actually work, how a certain action may play out or if a given rule is shared and perceived equally by everyone.

One of the principal-agent issues that needs to be put into perspective is that we don't have *a* principal and *an* agent but we are talking about a *sequence* of principals and a *sequence* of agents: congress is the principal and AID its agent -and it cannot say no to



*Forum Series on the Role of Institutions in Promoting Growth*  
Directed by The IRIS Center  
Sponsored by USAID's EGAT/EM  
SEGIR/LIR PCE-I-00-97-00042-00, TO 07



its directives, that's an important part of the rule- but AID Washington itself becomes a principal to the missions. These missions will in turn become principals to the divisions and so on, so you have a sequential issue that needs to be explained a little bit more clearly.

It also seems to me that incomplete contracting is very important because the assumption often is that when you issue a contract, you agree on an outcome that is shared equally by both parties to the contract. In my experience at AID, rarely is that true. The contracts are so complex and involve so many other incentives that the contract is actually embedded in a series of smaller contracts that need to be sorted out. One would expect that a certain SME project outcome would be an equally understood common goal, but it is often the case that there are a lot of other goals also lying on the back of that common goal that need to be taken into account.

Just a couple of other comments:

Regarding hidden information, I think it does explain the notification process that goes on through AID but it is again the people factor that plays a role. When a contract (or a 'bid' as we know it inside AID) is conceived, the idea is kind of abstract because it isn't translated into real people and often because of the 'start-stop' problem -where funds are either allocated or not- the people who are associated with the initial contract may change by the time the contract obligations actually start.

So the players are ultimately responsible for implementing that common goal, trying to make sure that such common goal is achieved. All those players can change. Again, it's not only hidden information but sequences of hidden information problems and sequential processes of discovery that take place.



I'd suggest that as we look at these institutional incentives issues applied to AID we may want to enrich NIE vocabulary:

- 1) Telephone problem: the message constantly changes through the chain as directions move from congress down to the administration, to aid, then to the missions and finally to the divisions.
- 2) Start-stop-run problem: it refers to the bumpiness in timing of allocation decisions, so time has to be more elastic than normal: right at this moment we have about 6 months to deliver one year's worth of work. Many decisions can stop projects or interfere with their execution through – for example- reallocation of funds within a regional bureau, economic recessions, September rush, etc.
- 3) Organizational Culture problem: organizational culture at AID has some unique characteristics that affect institutional incentives. There are specific organizational culture problems at instances like the AID Washington Bureau, the GSFS, and the USAID vs. contractor interface. We are functioning inside a series of exogenous organizational cultures that are neither orderly nor are they perceived equally relevant by the players, so you have an overlapping of cultures and norms within the institutional structure of USAID that affect outcomes.

Another pervasive issue at AID is that we tend to create a project and we end up reformulating it over and over. How do you avoid doing this? Maybe we at AID are so committed to change that when given the opportunity to do it we seize the opportunity and we change.

The ICID approach is interesting. I don't find the people part well articulated and I suggest that, as you consider other possibilities, you take a look at the financial sector analysis that Deloitte & Touche did, which actually proceeded further than your SME



database in terms of slicing the possibilities and issues present. We suggest that you explore this as a way of taking another look at that database to pursue this more institutional approach.



*Forum Series on the Role of Institutions in Promoting Growth*  
Directed by The IRIS Center  
Sponsored by USAID's EGAT/EM  
SEGIR/LIR PCE-I-00-97-00042-00, TO 07

